

Report To:	AUDIT COMMITTEE
Date:	28 NOVEMBER 2024
Heading:	INDEPENDENT MEMBER FOR THE AUDIT COMMITTEE
Executive Lead Member:	NOT APPLICABLE
Ward/s:	NOT APPLICABLE
Key Decision:	NOT APPLICABLE
Subject to Call-In:	NOT APPLICABLE

Purpose of Report

To enable Members of the committee to consider the appointment of an Independent Member to the Audit Committee and, subject to the Committee's decision, to confirm the outline recruitment process and role description.

Recommendation(s)

Committee is asked to:

- 1. Consider the proposal to appoint an Independent Member to the Committee; and**
- 2. Subject to the Committee's decision following consideration of the proposal, to confirm an outline recruitment process and role description and to delegate authority to the Executive Director, Governance (Monitoring Officer) to finalise arrangements in consultation with the Chairman of the Committee or his nominee.**

Reasons for Recommendation(s)

CIPFA Best Practice Guidance, National Audit Office (NAO) Guidance and the Redmond Review Recommendations requires that Audit Committees must actively explore the appointment of at least one independent member to the Committee. The recent Corporate Peer Challenge (CPC) Review report also recommended the co-option of individuals to strengthen the capacity of the Committee to provide constructive challenge.

The Audit Committee functioning in line with best practice strengthens the Council's governance arrangements and increases public confidence in our integrity. It is important that the Audit Committee operates effectively and including independent members on its Committee would demonstrate that it does so with more visible independence.

Alternative Options Considered

Committee could consider to not appoint an independent member to the Committee but this would not be best practice and would be contrary to a CPC recommendation.

Detailed Information

Proposal to Appoint an Independent Member

CIPFA best practice considers that Audit Committees must actively explore the appointment of at least one independent member to the Committee. This is to demonstrate good governance principles and independence from the Executive and other political allegiances.

Good practice shows that appointing independent members is beneficial to the Audit Committee. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- To bring additional knowledge and expertise to the committee;
- To reinforce the political neutrality and independence of the committee; and
- To maintain continuity of committee membership where membership is affected by the electoral cycle.

CIPFA do though acknowledge where authorities make use of independent members there are also limitations:

- Over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
- Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
- Effort is required from both independent members and officers to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

In January 2019 The National Audit Office (NAO) reported on Local Authority Governance and recommended that central government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of independent members.

In October 2020 the Audit Committee considered a report outlining the recommendations arising from Sir Tony Redmond's Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting. The Redmond review recommended consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee.

At the time, MHCLG responded to the Redmond review and agreed with the above recommendation and pledged to work with key stakeholders such as CIPFA, the NAO and the LGA

to ensure that, where appropriate, new guidance is issued which addresses the recommendations relating to the appointment of an independent member(s) to audit committees.

At present there are no statutory requirements on the Authority to appoint an independent member to the audit committee.

Analysis across Nottinghamshire shows that Gedling Borough Council and Mansfield District Council have decided to appoint independent members to their Audit Committees. They both pay an allowance of £530 per annum.

This Committee considered a report at its meeting on 29 March 2021 regarding the best practice guidance but at that time declined to seek to appoint an Independent Member.

The recent LGA Corporate Peer Challenge (CPC) report noted that the Council leads on some high risk and complex areas for a district council. These include its large strategic regeneration programme and significant commercial portfolio. This places a heavy responsibility on the Council's Audit Committee, which it suggested could therefore be supported and strengthened by co-optees with the specific regeneration and commercial skills required. The CPC felt this will help the Audit Committee best monitor these projects to keep them on track and compliant.

As a result, the CPC Recommendation 5 was to – **“strengthen your audit committee’s capacity to provide constructive and rigorous challenge through the co-option of individuals with specific finance and commercial property skills, in line with best practice”**.

Having independent members on Local Authority Audit Committees has proven to add value and enhance the reputation of the Committee from a good governance and independence perspective for those Councils who have adopted this approach.

Committee is therefore asked to consider the proposal to appoint an Independent Member to the Audit Committee.

Recruitment Process and Role

In the event that the Committee approves the proposal to appoint an Independent Member, Committee is asked to consider the following in order to enable the recruitment process to commence with a view to presenting a recommendation to Council to amend the membership of the Committee at the AGM in May 2025.

CIPFA has also included further guidance in its publication: ‘A toolkit for local authority audit committees’ in which it states the following:

“As for any other role, it is important that the choice of the co-opted member and/or chair is made carefully and after due consideration of the requirements of the role, the skill sets and the qualifications and experience needed.”

Voting rights of independent members

CIPFA advises that a local authority should have regard to section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members.

Many local authorities who have appointed independent members to their audit committees have taken the decision that to comply with legislation, the independent persons are able to attend and speak at meetings of the Committee but they cannot vote.

Recruitment process

CIPFA has also provided guidance in relation to the recruitment of independent persons to audit committees. The key areas from the guidance are detailed below:

- The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked.
- Independent members' appointments should be for a fixed term and be formally approved by the local authority's Council. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members.
- The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence and having a membership that will work together.

In line with CIPFA guidance, a draft role description and person specification has been drawn up and is attached at Appendix 1 for information. It is suggested that the advertisement for the role will particularly call for people with specific finance and commercial property skills and experience in line with the CPC's recommendations set out above.

There is no statutory requirement for appointment of Independent Members on an audit committee and therefore no legal restriction on the amount of time they can sit on a Committee. However, it is important to ensure that Independent Members do not become closely aligned to the Council and remain independent. Member may therefore wish to consider a maximum term of appointment; a number of authorities have a maximum term of 4 years for example.

An annual allowance of £1,080 (for up to a maximum of 4 cooptees) is payable to the Independent Members of Audit Committee in line with the Members' Allowances Scheme which was approved at Council earlier this year.

Implications

Corporate Plan:

The Audit Committee provides scrutiny of the authority's financial and non-financial performance and therefore forms part of the governance process to reflect sound financial management in supporting the Corporate Plan.

Legal:

An independent member would be a Co-opted Member of the Committee for the purposes of the application of the Code of Conduct. There is no legislative requirement at this time for the Council to appoint an independent member to the Audit Committee.

In accordance with local government law, it is recommended that the co-opted members do not have voting rights. [RLD 13/11/2024]

Finance:

As noted in the body of the report, the appointment of independent members is recommended by CIPFA and supported by MHCLG, the NAO and the LGA. Amongst other things, an independent member should add value by enhancing the Committee's ability to scrutinise financial management and performance. [PH 13/11/2024]

Budget Area	Implication
General Fund – Revenue Budget	The independent member would be paid an allowance and be reimbursed for travel and subsistence expenses. These costs are not currently provided for in the annual budget or MTFS.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
Audit Committee do not consider the appointment of an Independent Member to the Audit Committee.	This report is being considered by Audit Committee.

Human Resources:

Recruitment of a co-optee whilst not an employment role would be carried out in alignment with the Council's recruitment principles. The co-optee allowance will be paid through the payroll [KB14/11/24]

Environmental/Sustainability:

None.

Equalities:

The recruitment would comply with Equalities legislation and duties.

Other Implications:

None.

Background Papers

Report Author and Contact Officer & Sponsoring Executive Director

Ruth Dennis
EXECUTIVE DIRECTOR - GOVERNANCE
ruth.dennis@ashfield.gov.uk
01623 457009